

Comments

submitted to

Docket No. 96-REN-1890
California Energy Commission Hearing
on the

Policy Report on AB 1890
Renewables Funding
(Staff Draft February 14, 1997)

on behalf of
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by
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Summary

Clean Power Works proposes:

- That production credits, project-specific assistance, and customer credits be added together forming a total of \$525 million, and
- That this amount then be double counted with:
 - The entire \$525 million paid in cash per kWh to renewable energy generators that sell electricity into the direct access market, and
 - The entire \$525 million also shown as reductions in bills to customers who purchase direct access renewable electricity.

Background

Decisions made here are so important that their long-term implications should be considered.

Their importance is far greater than just what happens with the AB1890 funds, and whether they are spent on one technology or another. The structure established in these proceedings will determine the extent to which California electricity supply does or does not move towards sustainability over the next several decades and whether a market is established in which customers have free choice. Sustainability is important scientifically, philosophically and politically. Most citizens of California and other states believe that global climate change is occurring, prefer renewable electricity sources, and say they are willing to pay for them. What we decide here may or may not give them the opportunity to do something about those concerns.

Renewable energy has not yet tapped its potential market, but AB1890 can help it do so.

History reveals that the diverse segments of the renewable electricity industry have successfully obtained short-run support such as government subsidies, research grants, and standard offer contracts; but that they have not presented products which the public can decide to buy. History also reveals that trying to force influential, monopsonistic utilities to do something not in their best financial interest (as they will say, for example, a portfolio standard is not) has been unsuccessful. Finally, no product that is as widely adopted as renewable electricity sources must be to make difference in climate change has attained success unless the public can take action to buy it.

Proposal

CPW believes that AB1890 funds could both develop a customer-driven market for the long run *and* provide for the support that various industry segments need for the short run. We need both, and if we don't capitalize on customers' well known preference for renewables the industry may lose the political and economic support it must have until and after 2001.

The Staff's draft plan (for example, Figure ES-1) allocates portions of the \$540 million for existing, new, or emerging technologies, *or* for consumer-side incentives. By contrast, it was my poorly expressed intent in a previous submission that the second *or* should be an *and*, so that customer renewable kWh credits granted to customers are the same as production credits.

Under the Staff's draft plan, the decisions as to which technologies get how much money and when they get it are fundamentally arbitrary, even if made by experts based on complete information. Moreover, under the Staff's draft structure these important decisions about specific amounts are not only necessary components of the Staff's proposed structure but, based on the past several months of hearings, are virtually certain to displease everyone.

The following is the crux of the proposed plan:

- The entire \$525 million is paid in cash per kWh to renewable energy generators that sell electricity into the direct access market, and
- The entire \$525 million also is shown as reductions in bills to customers who purchase direct access renewable electricity.

In the substitute plan proposed herein, a renewable kWh credit is granted to every certified kWh a real direct access customer buys, and customers' bills are printed showing their bill reduction as the renewable kWh credit times the number of renewable kWhs they purchase.

Under this plan, the CEC makes only one arbitrary decision, how much is the credit to be (CPW suggests a uniform 2 cents per kWh for all years for all technologies) instead of making several dozen arbitrary choices as is required in the Staff's draft. This decision is simple even if difficult to make, it treats all technologies equally, and it should attract no charges of unfairness.

All money goes to the producers.

All of the cash associated with the renewable kWh credits (\$540 million minus only the consumer information expenditure, proposed here to be \$15 million) goes to the

electricity producers, based on customers' choices. Electricity producers get this cash payment per kWh when they sell their electricity to real, direct access customers, perhaps through aggregators and perhaps not.

None of it goes to aggregators.

CPW believes that previous aggregators' submissions may have been misunderstood. Contrary to hostile opinions expressed to me by those to whom I failed to express my plan clearly last month, none of the money goes to the aggregator. Aggregators need some start up capital, just like any new enterprise, but they shouldn't be in business if they have to come to the CEC for it. The numbers will flow through the aggregators' billing systems so that customers see how much their bills are reduced from what they would have been without the credits, for which the CEC and the legislature should take a different kind of credit.

All certified electricity is sold in the direct access market.

There is some down side for renewable energy generators. Generators on utility standard offer contracts, or any utility contracts, are not eligible to receive production credits; they will have to have their contracts bought out in order to join the direct access market. But none of them are worse off under the proposed arrangement than they are now, and if they choose to stay on their present arrangement they are free to do so.

Based on the numbers in the February 14 draft, this plan makes the total of production credits available for producers about \$65 million greater. It makes the reductions customers see on their bills about \$449 million greater. I propose that the CEC also use an additional \$10 million, making a total of \$15 million, for consumer information and market building to explain all this to customers.

Legislative intent is met.

A key component of AB1890 is its intent to form a market-based structure within which renewable electricity sources can flourish (or fail if they don't provide what the market wants, like any free market). This proposal meets that intent, and offers a long-term future for renewable electricity sources that will not be met with wishful thinking or hoping that more subsidies will drive prices down to the PX level.

Whenever the legislated funding runs out for existing technologies, for example, no more credits can be granted for them and credits no longer appear as reductions on those customers' bills.

This proposal is simple.

No solicitations are necessary under this plan and customers in the market decide how much of what to buy. No complicated and arbitrary allocations are necessary, and perhaps best of all, this plan is easy for customers to understand and aggregators to explain.

Emerging technologies can be supported.

This production incentive-customer incentive plan may be less appealing for two of the emerging technologies (PV and dish Stirling) if they really must receive financing support for investment rather than production credits. But perhaps production incentives will be enough. PV and dish Stirling offer customers an immense advantage: they can be located at the customer's location and their economics are based on customers' energy costs rather than wholesale costs.

In keeping with the spirit of AB1890, whatever electricity is generated from emerging technologies will not only receive the production credit, but will also count in the 50% requirement for immediate direct access (permitting customers with PV systems to buy the other 49% of their energy from the dirtiest of coal plants if they like). This will require a second meter (alas, thereby negating some of the advantage obtained with net metering). CPW proposes that as a mature, reliable technology, building integrated PV can be assisted by regulatory and legislative action so that it is financed effectively with mortgage rates of 7 % rather than the 10 or 12%.

Dish Stirling might fill the same customer-side role for commercial and industrial customers.

Large housing developers may accept building integrated PV as an option if there is certainty in the savings and if it can be financed. CPW is acquainted with one housing developer who might do this and others who have considered it.

No production credits go to fossil-fueled sources.

CPW suggests that the 25 per cent gas limitation on hybrid systems be replaced with a simpler statement: electricity produced from solar sources receives the production credit and electricity produced from gas does not receive it. This would enable plants such as SEGS, the central receiver plant(s) and dish Stirling to use as much gas as they need to be economically viable.

Conclusion

Decisions made here are so important that their long-term implications should be considered.

Renewable energy has not yet tapped its potential market, but AB1890 can help it do so.

The proposed plan is described as follows:

- The entire \$525 million is paid in cash per kWh to renewable energy generators that sell electricity into the direct access market, and
- The entire \$525 million also is shown as reductions in bills to customers who purchase direct access renewable electricity.

All money goes to the producers.

None of it goes to aggregators.

All certified electricity is sold in the direct access market.

Legislative intent is met.

This proposal is simple.

Emerging technologies can be supported.

No production credits go to fossil-fueled sources.